



May 18, 2010

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TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D. 
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS)
FISCAL OUTLOOK (BOARD AGENDA, ITEM S-2,
MAY 18, 2010)**

This is to provide a Summary of Changes in the DHS Fiscal Outlook (Attachment I) since our last Budget Committee of the Whole report to your Board on April 6, 2010. As indicated in the Summary of Changes, the current estimated shortfalls are \$(204.2) million for Fiscal Year (FY) 2009-10 and \$(599.5) million for FY 2010-11. The developments contributing to these changes are summarized in the attached Summary of Changes.

John F. Schunhoff, Ph.D.
Interim Director

Gail V. Anderson, Jr., M.D.
Interim Chief Medical Officer

Key Factors Impacting DHS Fiscal Outlook

The estimated shortfall for FY 2010-11 reduced from the April report primarily due to the inclusion of the improved Vehicle License Fee and Sales Tax Realignment revenues and the potential extension of the enhanced Federal Medical Assistance Percentage (FMAP) at 61.59% through June 2011 per the Proposed Budget, offset by the restated Managed Care Rate Supplement estimates provided by the State. Note that the FMAP extension included in the federal Jobs Bill remains pending at this time.

As previously reported, the Governor's proposed State budget for FY 2010-11 includes \$750 million in unspecified Medi-Cal reductions. Combined with the loss of federal matching funds, and depending on whether or not the Federal Medical Assistance Percentage (FMAP) is extended to June 2011, the total cut to the Medi-Cal program statewide could be as high as \$2.0 billion. The State has yet to provide clarification on what specific Medi-Cal reductions are targeted. There may be more specificity on program reductions by the State in its May Revised Budget Proposal.

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Strategic Planning

On April 6, 2010, the Board approved Supervisor Antonovich's motion to include in the next Budget Committee of the Whole report, a report on DHS planning activities, including:

- Necessary capital investments for infrastructure improvement and equipment needs
- Estimated up-front costs for infrastructure and information technology
- Necessary components of a managed care model, such as medical homes for specialty services
- Contracting requirements to meet this model, such as expanded contracts for primary care
- Staffing needs
- Timeline for implementation of critical elements
- Proposed funded sources for costs associated with program transition requirements.

The Department has created a steering committee for the ambulatory care reorganization, based on the recommendations of the Health Management Associates (HMA) report, and will incorporate these planning activities into the ambulatory care reorganization. The Department will incorporate the reports on these planning activities into the periodic updates on the HMA report. The first two meetings of the steering committee are on May 19, 2010 and May 25, 2010.

Potential Solutions to Reduce FYs 2009-10 and 2010-11 Deficits

In addition to the FMAP extension indicated above, the Department continues its focus on the Hospital Provider Fee and the 1115 Waiver as potential ways to mitigate the Department's deficit. However, even optimistically assuming the best outcome for all of these objectives, the additional revenues are insufficient to resolve the Department's structural deficit. The Department anticipates that some part of Tobacco Settlement funding will be necessary to balance its FY 2009-10 budget.

Hospital Provider Fee

The Centers for Medicare and Medicaid Services' (CMS) approval of the Hospital Provider Fee remains pending. It is our understanding that CMS has concerns with the structure and distribution methodology of the fee. If approved, the effective date of the approval will determine the financial impact on the Department. The possible effective dates are as early as October 2008 and as late as July 2009. The value of each quarter is approximately \$34.3 million so the earlier the effective date approved by CMS is, the more positive the impact on the Department's outlook.

1115 Waiver

The State released a draft Waiver implementation plan on May 7, 2010. This document, which will be discussed at the Waiver Stakeholder Advisory Group on May 13, is primarily a program/policy document and does not include any detailed information on proposed funding. The Department continues to actively collaborate with the California Association of Public Hospitals and Health Systems (CAPH) and other stakeholders, and continues to engage the State directly on Waiver concerns. As shown in the fiscal forecast, it is critical for the County to receive additional federal funding in the next Waiver. Otherwise, the Department will have no way to close its budget deficit.

The Department's ability to mitigate its FYs 2009-10 and 2010-11 budget shortfalls remains limited. The relative success of efforts to secure the FMAP extension, the Hospital Provider Fee, and the 1115 Waiver will determine the level of impact on the Department's budget. The overall financial picture for the Department is difficult to project given the high level of uncertainty as to whether these potential revenue streams will be approved or not. The Department continues to monitor these items and will continue to report to your Board as new developments occur.

To illustrate the various fiscal impacts which could potentially result from the different components and timelines, the Department has updated the scenario summary included in the previous DHS Fiscal Outlooks (see Attachment II). However, even if these revenues are fully realized, the Department believes Tobacco Settlement funding will be necessary to close the budget deficit.

If you have any questions or need additional information, please let me know.

JFS:aw

Fiscal Outlook Memo 051810_v4

609:005

Attachments (2)

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
MARCH 22, 2010 THROUGH MAY 11, 2010

		Fiscal Year / \$ In Millions					
		09-10	10-11	11-12	12-13	13-14	Total
(1)	Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 3/22/10^(A)	\$ (200.0)	\$ (625.8)	\$ (1,127.6)	\$ (1,739.3)	\$ (2,469.7)	\$ (2,469.7)
Subsequent Adjustments							
(2)	Reduced budgeted Overrealization of Prior Year Revenue included in Proposed Budget by the CEO	-	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)
(3)	Vehicle License Fee and Sales Tax Realignment revenues updates provided by the CEO in May 2010	7.4	7.6	7.6	7.6	7.6	37.8
(4)	FMAP Extension at 61.59% through June 2011 included in Proposed Budget by the CEO (one-time adjustment)	-	33.8	-	-	-	33.8
(5)	Restated Managed Care Rate Supplement estimates for FYs 09-10 and 10-11 provided by the State in April 2010. Also reflects an annual administrative fee to be charged for the Health Net's Managed Care Rate Supplement	(17.7)	(3.1)	(0.2)	(0.2)	(0.2)	(21.4)
(6)	Adjusted prior year revenues and liabilities based on most recent audited cost reports ^(B)	9.0	-	-	-	-	9.0
(7)	Projected non-reimbursable costs to repair damages caused by the Sayre fire occurred in November 2008 at OV/UCLA Medical Center (one-time adjustment) ^(C)	-	(9.0)	-	-	-	(9.0)
(8)	Improvement in Coverage Initiative revenue for FY 07-08 due to program changes	4.5	-	-	-	-	4.5
(9)	Lower than anticipated indemnity costs per CEO's Risk Management in April 2010	2.0	-	-	-	-	2.0
(10)	Unspent funds for incomplete existing capital projects that will be carried over to FY 10-11 to be retained at CEO's Capital Projects Funds per instructions from the CEO in April 2010	(10.9)	10.9	-	-	-	-
(11)	Other improvements in current year operating forecast / minor updates to future estimates	1.5	0.3	(0.3)	(1.2)	(1.8)	(1.5)
(12)	Forecast improvement/(reduction) roll-forward	-	(4.2) ^(D)	26.3 ^(D)	23.4 ^(D)	19.6 ^(D)	-
(13)	Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 5/11/10^(A)	\$ (204.2)	\$ (599.5)	\$ (1,104.2)	\$ (1,719.7)	\$ (2,454.5)	\$ (2,454.5)

Notes

(A) FYs 10-11 through 13-14 assume Medi-Cal Redesign 1115 Waiver extension at current levels.

(B) This reflects improvements in Medicare revenue estimates due to reductions in the prior year liabilities per the audited cost reports, offset by phasing out three months of Overrealization of Prior Year Revenue.

(C) This reflects projected overhead and other soft costs that are not eligible for FEMA reimbursements. The total projected construction costs are approximately \$43.0 million per the Department of Public Works.

(D) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$19.6 million on Line# 12 in FY 13-14 is \$(1,719.7) million - \$(1,739.3) million from FY 12-13.

IDEAS FOR POTENTIAL SOLUTIONS

FISCAL YEARS 2009-10 AND 2010-11 (NON-CUMULATIVE)

(\$ IN MILLIONS)

	FY 09-10	FY 10-11	Total	Comments
Estimated Year-End Balances/(Shortfalls) - before Adjustments for Financial Stabilization	(\$293.9)	(\$485.0)	(\$778.9)	
Financial Stabilization	89.7	89.7	179.4	
Estimated Year-End Balances/(Shortfalls) ⁽¹⁾	(\$204.2)	(\$395.3)	(\$599.5)	
<u>SCENARIO I - NO HOSPITAL FEE</u>				
> Waiver Extension - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	-	17.2	17.2	DHS continues efforts on cost savings and maximizing revenues
> Tobacco Settlement fund	93.3	-	93.3	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	(\$101.9)	(\$378.1)	(\$480.0)	
<u>SCENARIO II - 18 MONTHS HOSPITAL FEE</u>				
> Waiver Extension - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Hospital Provider Fee ⁽²⁾	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	-	17.2	17.2	DHS continues efforts on cost savings and maximizing revenues
> Tobacco Settlement fund	58.2	35.4	93.6	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	\$0.0	(\$274.2)	(\$274.2)	
<u>SCENARIO III - 27 MONTHS HOSPITAL FEE</u>				
> Waiver Extension - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Hospital Provider Fee ⁽²⁾	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional Hospital Provider Fee (Additional Quarter)	34.3	-	34.3	Assumes effective date of April 1, 2009 (April - June 2009)
> Additional Hospital Provider Fee from FMAP Extension	-	68.5	68.5	Due to 6-month extension of FMAP (January - June 2011)
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	-	17.2	17.2	DHS continues efforts on cost savings and maximizing revenues
> Tobacco Settlement fund	23.9	70.1	94.0	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	\$0.0	(\$171.0)	(\$171.0)	
<u>SCENARIO IV - 27 MONTHS HOSPITAL FEE + NEW WAIVER</u>				
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Hospital Provider Fee ⁽²⁾	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional Hospital Provider Fee (Additional Quarter)	34.3	-	34.3	Assumes effective date of April 1, 2009 (April - June 2009)
> Additional Hospital Provider Fee from FMAP Extension	-	68.5	68.5	Due to 6-month extension of FMAP (January - June 2011)
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	-	17.2	17.2	DHS continues efforts on cost savings and maximizing revenues
> Waiver	-	150.0	150.0	The estimated value of the Waiver is \$450.0M Statewide. Estimate is based on LA County's current percentage of Waiver funding.
> Tobacco Settlement fund	23.9	70.1	94.0	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	\$0.0	(\$21.0)	(\$21.0)	

Notes:

1) Estimates are per the DHS Fiscal Outlook dated 5/11/10.

2) Pending CMS' review and approval. Amounts may vary depending on the effective date of implementation and State's share.